

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
March 22, 2012**

A regular meeting of the Nebraska Investment Council convened at 8:35 a.m. at the Embassy Suites in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on March 1, 2012, and published in the Lincoln Journal Star on March 11, 2012. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel
Treasurer Don Stenberg
Ms. Phyllis Chambers

MEMBERS ABSENT:

Mr. Norm Riffel

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Joe Spitznagel, Nebraska Investment Council
Mr. Jeremiah Garber, Nebraska Investment Council
Mr. Max Kotary, Hewitt EnnisKnupp
Ms. Laurel Nicholson, Hewitt EnnisKnupp
Ms. Nancy Williams, Hewitt EnnisKnupp
Ms. Catherine Polleys, Hewitt EnnisKnupp
Mr. David Rose, Hewitt EnnisKnupp
Mr. Jason Walters, State Treasurer's Office
Ms. Jana Langemach, State Treasurer's Office
Mr. John Schembari, Kutak Rock
Ms. Autumn Long, Kutak Rock

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:35 a.m. to 8:36 a.m. Ms. Werner-Robertson advised that the Nebraska Open Meetings Act applies and stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE FEBRUARY 1, 2012 MEETING: 8:36 a.m. to 8:37 a.m. Mr. Dinkel moved that the February 6, 2012, draft of the minutes of the February 1, 2012, meeting be approved as written. Mr. Maginn seconded the motion. Ms. Werner-Robinson called for a roll call vote.

VOTING AYE:	Dr. DeFusco
	Mr. Maginn
	Mr. Dinkel
	Ms. Werner-Robertson

ABSENT NOT VOTING:	Mr. Riffel
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The motion carried.

COUNCIL MEMBER BUSINESS: 8:37 a.m. to 8:40 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and indicated that Mr. Riffel is unable to attend today's meeting due to a scheduling conflict. Ms. Werner-

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Robertson commented on the recently released Nebraska Investment Council's 2011 Annual Report, complimenting Mr. States and staff on the great job done on the report. Ms. Chambers also congratulated Mr. States on a job well done on his presentation before the Nebraska Retirement Systems Committee on March 20, 2012.

MARKET OUTLOOK AND PERFORMANCE UPDATE: 8:40 a.m. to 9:05 a.m. Ms. Williams introduced Ms. Laurel Nicholson, Senior Consultant with Hewitt EnnisKnupp (HEK). Ms. Nicholson who recently joined the NIC relationship team had previously worked for the NIC as a governance consultant. Ms. Nicholson has been with the firm for 14 years; serving on the firm's defined contribution research team, its fiduciary services teams, and has managed the firm's performance analyst group.

Ms. Nicholson distributed copies of the Performance Summary as of January 31, 2012, and HEK's Capital Market Assumptions as of March 2012. Ms. Nicholson indicated that January continued the positive momentum from the fourth quarter of 2011. Ms. Nicholson stated that on the whole, economic data was positive in the first month of 2012. A copy of the presentation is included in the attachments to the minutes.

REAL ESTATE PORTFOLIO PERFORMANCE AND MANAGER RECOMMENDATION PRESENTATIONS BY HEWITT ENNISKNUPP: 9:05 a.m. to 9:50 a.m. Ms. Williams informed the Council that Ms. Heather Christopher, has resigned from her position at Hewitt EnnisKnupp and has taken a position with another investment advisory firm. Mr. David Rose, CPA, has joined the NIC relationship team as a real estate consultant and will assume the responsibility previously done by Ms. Christopher. Mr. Rose earned a B.S. degree in finance and accounting from The Ohio State University and is a State of Illinois Registered Certified Public Accountant. Mr. Rose has over seven total years of real estate experience and four years of real estate consulting experience at Hewitt EnnisKnupp, joining the firm in 2008. Mr. Rose along with Ms. Catherine Polleys will be providing the real estate performance report at today's meeting.

Ms. Polleys reviewed with the Council the 3rd Quarter Performance Report included in the meeting book. Ms. Polleys' presentation included an overview of the total returns, capital markets, fundamentals, third quarter trends and market outlook. Ms. Polleys indicated that 3rd quarter 2011 was the seventh consecutive quarter of positive total returns. Mr. Rose gave an overview of the portfolio noting that the NIC has committed \$572.0 million to 14 real estate funds (17 investments in total) across the DB/CBB and General Endowments. Mr. Rose's presentation which was included in the meeting book covered the following for the DB/CBB and General Endowments: portfolio funding summary, time weighted performance, pacing, diversification, real estate risk/return spectrum, and compliance. Mr. Rose indicated that Hewitt EnnisKnupp proposes pacing for 2012 for the DB/CBB of \$20.0 million in the value added strategy and \$4.0 million for the General Endowments in the core/core plus strategy. Mr. States indicated that staff recommends acceptance of HEK's proposed pacing for 2012. In response to questions about the General Endowments' pacing it was agreed that staff and HEK would look for an opportunity to increase the commitment to core/core plus strategies this year. Ms. Polleys and Mr. Rose will present to the Council a new fund for the DB/CBB at the May 24, 2012, meeting for their consideration.

The Council took a break and reconvened at 10:10 a.m.

PUBLIC EQUITY AND REAL ESTATE INVESTMENT POLICY: 10:10 a.m. to 10:25 a.m. Mr. States stated that at the request of the Council at the February 1, 2012, Council meeting staff and HEK had surveyed the Council's current non-U.S. equity and global equity investment managers to assess their capability and willingness to change the investment benchmark for their portfolio to an MSCI All Country World ex U.S. Investable Market Index (IMI) or the MSCI All Country World IMI indices. The Council also requested staff and HEK develop a timeline for addressing any changes to the equity portfolio structure, benchmarks and investment mandates. Mr. Kotary's presentation which was included in the meeting book summarized the responses received; outlined what impact the changes would have on each portfolio; and provided recommendations on changing any of the manager's benchmarks. Mr. Kotary summarized HEK's recommendation for the NIC's Global Equity Managers:

- Changing the Acadian and Mondrian global equity mandate benchmarks from the MSCI All Country World Index to the MSCI All Country World Investable Market Index will serve to better align NIC's global equity component with the broad market opportunity set

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- We believe both managers have the requisite small-cap capabilities to effectively manage the additional small-cap exposure
- Adjusting MFS's benchmark will not impact the construction of its portfolio, but given that MFS considers the entire equity universe (large- mid- and small-cap) when building its portfolio, we believe it is reasonable to measure the manager's performance against the MSCI All Country World Investable Market Index
- IronBridge is the only manager for which the MSCI All Country World Investable Market Index strikes us as an imperfect fit, given the manager's self-imposed market-capitalization restriction
- We do believe that holding IronBridge to the MSCI all Country World IMI over the intermediate-to-long-term is reasonable, however, and would suggest comparing the manager to both the MSCI World Index and the MSCI All Country World Investable Market Index for performance reporting purposes going forward

Following discussion by the Council, Mr. Maginn moved to accept HEK's recommendation for the NIC's Global Equity Managers. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Maginn Mr. Dinkel Ms. Werner-Robertson Dr. DeFusco
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ABSENT NOT VOTING:	Mr. Riffel
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The motion carried.

PRIVATE EQUITY AND REAL ESTATE INVESTMENT POLICY BY MR. STATES AND HEWITT ENNISKNUPP: 10:25 a.m. to 11:20 a.m. The Council had requested at the February 1, 2012, Council meeting that Mr. States and HEK develop a policy delegating to the State Investment Officer (SIO) limited authority to make a commitment to a private equity fund or closed end real estate fund offered by one of the NIC's existing managers. This policy would be followed in situations where the timing does not permit the SIO to bring the commitment back to the Council for approval before the commitment period closing. At the February 1, 2012, Council meeting the Council had approved a one-time authorization for the SIO to make a commitment to Accel-KKR after completion of a due diligence review by staff and HEK. Ms. Williams discussed the memo included in the meeting book offering proposed language to include in the policy for the Council's consideration. Mr. Dinkel thought that even though the proposed policy built in conditions that granted the SIO the authority to make commitments only under certain situations, he felt that the Council should vote on all proposed commitments. Following additional discussion the Council requested several changes be made and requested that Mr. States and HEK update the policy with the changes and bring it back for their consideration at the May 24, 2012, Council meeting.

Mr. States distributed copies of HEK's review of a new fund being offered by Ares Management LLC, a current NIC investment manager. The new Fund, Ares Corporate Opportunities Fund IV, L.P. is a distressed debt, buyout, and growth equity fund being formed to invest in middle-market companies in a broad range of industries that require investments of \$100 million-\$400 million. The Fund is expected to conduct the first close in late March 2012 and the final close in mid to late May 2012, possibly before the next Council meeting. HEK and staff are recommending a commitment of \$20.0 million to the Fund. Because of the Fund's anticipated closing date, Ares Management LLC will not have the opportunity to present to the Council before the Fund closes. Mr. States is requesting authorization from the Council for a one-time authorization to make a commitment to Ares Corporate Opportunities Fund IV, L.P. for \$20.0 million. Following discussion by the Council, Mr. Maginn moved to give the State Investment Officer authority to make a one-time commitment to Ares Corporate Opportunities Fund IV, L.P. for \$20.0 and that the SIO and HEK bring back to the Council at the May 24, 2012, Council meeting the revised private equity and real estate policies for Council's consideration. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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VOTING AYE: Ms. Werner-Robertson
Dr. DeFusco
Mr. Maginn

ABSTAINING: Mr. Dinkel

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

A copy of HEK's presentation of Ares Corporate Opportunities Fund IV, L.P. is included in the attachments to the minutes.

OPERATING INVESTMENT POOL- INTERNAL PORTFOLIO UPDATE AND PERFORMANCE: 11:20 a.m. to 12:10 p.m. Mr. Joe Spitznagel and Mr. Jeremiah Garber, Portfolio Managers for the Operating Investment Pool (OIP) reviewed the presentation included in the meeting book. Mr. Spitznagel discussed the changes made since the OIP was restructured in mid-October 2011, to begin to transition the Galliard externally managed corporate securities portfolio back to internal management. Council discussion followed with Mr. Maginn requesting that future reports also include a maturity schedule by month and by industry and sector.

The Council took a break and reconvened at 12:30 p.m.

NEBRASKA EDUCATIONAL SAVINGS TRUST PROPOSED FUND INVESTMENT CHANGES: 12:30 p.m. to 1:00 p.m. Mr. States introduced representatives from First National Bank Omaha the Program Manager for the Nebraska Educational Savings Trust, Ms. Deborah Goodkin, Managing Director College Savings Plans, Mr. Stacey Auman, Investment Officer, and Mr. David Cota, Senior Managing Director, First National Investment Services. They reviewed the proposed changes included in the meeting book for the NEST Direct, NEST Advisor, and the TD Ameritrade 529 Plans. Mr. States stated that staff recommends approval of the proposed changes. Ms. Nicholson indicated that HEK is comfortable with all the recommended changes, too. After discussion by the Council, Dr. DeFusco moved to adopt the proposed changes presented by First National Bank Omaha for the NEST Direct, Nest Advisor, and TD Ameritrade 529 Plans and authorize Mr. States to sign documents necessary to implement such changes, subject to satisfactory documentation being provided by First National Bank Omaha and reviewed and approved by Mr. States and Mr. Heinrich. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Ms. Werner-Robertson
Dr. DeFusco
Mr. Maginn
Mr. Dinkel

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

NPERS DIRECTOR'S REPORT: 1:00 p.m. to 1:15 p.m. Ms. Chambers informed the Council that the PERB has two new board members, Mr. Ron Ecklund, CPA, who works for a local accounting and consulting firm and Mr. Stuart Simpson, a school Business Manager from North Platte. Both were recently confirmed before the Legislature. Ms. Chambers distributed copies of NPERS' 2012 Annual Report, which was presented to the Nebraska Retirement Systems Committee on March 20, 2012. Ms. Chambers discussed the 2011 Accomplishments and the 2012 Action Plan included in the report. Ms. Chambers also discussed current legislation that could affect NPERS. Ms. Chambers reported that the Annual Investment Report is being developed and that NPERS' annual retreat is scheduled for July 23, 2012, at the Lied Conference Center in Nebraska City.

AUDIT COMMITTEE REPORT: 1:15 p.m. to 1:35 p.m. Dr. DeFusco reported that he and Mr. Maginn, Audit Committee members, had met with Ms. Westerman, Internal Auditor, via conference call on March 19, 2012. The Audit Committee will meet again next quarter with the Internal Auditor and report back to the Council

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at that time. A copy of the Audit Committee Report is included in the attachments to the minutes.

STATE INVESTMENT OFFICER'S REPORT: 1:35 p.m. to 2:00 p.m.

Agency Budget Update: Mr. States reviewed the Agency's February 29, 2012, Budget Report which was included in the meeting book and reported that the Agency is under-budget for the fiscal year.

Legislative Update: Mr. States reviewed with the Council the status of the legislative bills included in the meeting book, which may have an effect on the NIC.

Securities Lending Report: Mr. States indicated that a copy of the CY11 Q4 Quarterly Securities Lending Report is included in the meeting book.

University Fund N Update: Mr. States reviewed the University of Nebraska-Fund N Report included in the meeting book.

Annual Report Review: Mr. States reported on his presentation of the NIC's 2011 Annual Report before the Nebraska Retirement Systems Committee on March 20, 2012.

July Board Retreat: Mr. States reminded the Council that the annual retreat is scheduled for July 17, 2012, at Quarry Oaks near Ashland. Mr. States informed the Council that his review which was scheduled to be done at the retreat will be moved to the August 23, 2012, Council meeting.

IMAs Executed Since Last Meeting: Mr. States stated that a \$20.0 million commitment has been made to Accel-KKR Capital Partners IV, LP. Mr. States informed the Council that the final step to complete the global fixed income allocation to Rogge was implemented in February by reducing the BlackRock Universal by 8% and the BlackRock passive by 7.5%.

Action Plan, Conferences, and Articles: Mr. States informed of the Council of HEK's upcoming 2012 Client Conference in May and encourages Council members to attend. The May 24, 2012 Council meeting will be in the Alumni Room at the Lincoln Embassy Suites.

ROBB EVANS & ASSOC. (RECEIVER FOR WG TRADING CO.) V. NIC: 2:00 p.m. to 2:20 p.m. At 2:00 p.m. Mr. Maginn made the following motion: I move to enter into closed session. The subject matter of the closed session is the receipt of legal advice from counsel related to the lawsuit filed by the Receiver of WG Trading Company against the Nebraska Investment Council. The reason for the closed session is to maintain the confidentiality of such advice and communications related thereto. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Ms. Werner-Robertson
	Dr. DeFusco
	Mr. Maginn
	Mr. Dinkel

ABSENT NOT VOTING:	Mr. Riffel
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The motion carried.

Ms. Werner-Robertson requested that only the voting and non-voting members of the Council, Mr. States, Mr. Heinrich, and Mr. Jurich be present and all others in attendance were excused.

At 2:20 p.m. Dr. DeFusco moved that the Council return to open session. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Dr. DeFusco
	Mr. Maginn
	Mr. Dinkel

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Ms. Werner-Robertson

ABSENT NOT VOTING:

Mr. Riffel

The motion carried.

PUBLIC COMMENT ON THE AGENDA: 2:20 p.m. to 2:21 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 2:21 p.m. Mr. Maginn moved to adjourn the meeting. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

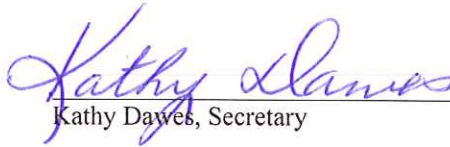
VOTING AYE:

Mr. Maginn
Mr. Dinkel
Ms. Werner-Robertson
Dr. DeFusco

ABSENT NOT VOTING:

Mr. Riffel

The motion carried.


Kathy Dawes, Secretary